

the general population in these cities. In this instance, a company representative says: "It simply is becoming a traditional way of doing business. It is not even recognized as an employee benefit by many of the workers, but largely taken for granted."

A consumer products firm operates two full-size hospitals in Liberia, with the entire resident staff of these hospitals—units operating with multimillion dollar budgets—being on the payroll of the company. Another firm reports that it has had an active program for training physicians and nurses in the Amazon region of Brazil for several years, and operates a hospital ship that goes up and down the Amazon serving local villages.

A firm in Zaire found that the existing medical facilities were "thin and not very friendly" and decided to establish its own health system, providing out-patient services to both employees and dependents. As a result, this company's representative says, there has been a notable boost in worker attendance, because: "In the past when someone in the family was sick, the workers of that family often stayed home in order to care for the sick member."

One of the forum executives described his own experience in managing a food plant in the Philippines several decades ago. He reports: "In my early years out there, it became apparent that employees were using our steam racks to cook their daily meals. We could see them boiling rice in little food cans on the racks, and this was their main food source. At that time, the population had a very high incidence of tuberculosis. A company program was started with the aim of eradicating tuberculosis among our employees and their dependents. It included providing specialized medicines to the employees and their families, giving them up to six months time off with a guarantee of a job when they returned, and nutritional education. Over the years tuberculosis was virtually eliminated in the areas where our plants were located."

The health-care facilities, besides treating incidents of disease, are also used to conduct the companies' annual physical exam programs. Most of the firms represented at the forum now require a pre-employment physical in LDC's. In addition, they offer annual medical checkups for most employees. The theory, several company representatives report, is that it is especially important in developing countries to detect medical problems early, since these are seen as areas with a more "fragile medical environment." Even when the firms do not have facilities to treat the detected illnesses, they do make recommendations for treatment at other facilities in the country or nearby areas.

Physical screening can also be motivated by the legal climate in some LDC's. Companies have become wary of claims made by workers for "job-caused illnesses" that the employee may have had prior to employment. One

executive, relating his experience in a South American country, says: "The only health director I ever fired was dismissed because the physician missed important data on a new hire that should have indicated that the employee had a medical problem. Three months after we hired this person, I ended up with a \$1 million law suit because of alleged maltreatment. This suit arose largely because we failed to screen out the individual before employment."

Operating the company's own health facilities can create personnel problems, some of the executives admit. For example, one says: "A conflict sometimes arises between a company doctor's interpretation of an employee's health and the employee's own ideas. For example, a worker may check into a hospital in the morning with certain symptoms that he believes deserve several days off. The company doctor may give him two aspirins and send him home to bed, indicating that he should report to work the following day. But the employee may regard the doctor, because he is a salaried employee of the firm, as a biased observer of his medical condition." And, the manager reports, the local plant manager has to step in and act as an arbitrator between the employee and the company physician.

One of the executives in the forum also reports that in addition to medical personnel, his company provides trained social counseling to help employees resolve family conflicts. Describing how this program works, the executive says: "We found that the bad attendance record of an employee can sometimes be traced back to something that is happening within the family, a condition that might be resolved by the intervention of a skilled social worker. So we developed a program in half a dozen or so countries that provides such assistance. Mostly, it's done on a local initiative basis. The general manager in the country must be convinced that social workers can make a difference in helping resolve family differences in that area."

The Corporate Role In Family Planning Efforts In LDC's

International demographers now project that more than 90 percent of the total increase in the work force during the next two decades will occur in the less-developed nations in the world. Already, in nations such as Mexico, Pakistan and Nigeria, people under 15 years of age constitute 50 percent of the population.⁴

The managers of American multinationals are well

⁴Sheldon Segal, and Parker W. Mauldin, "To Help the 1.3 Billion." *The New York Times*, February 23, 1981.

aware of these statistics. They recognize, as most host governments do, that unless population growth can be checked, productivity improvements alone will never be able to increase the standard of living in LDC's. Even so, only a few corporate spokesmen come straight out and suggest that companies in overpopulated, underdeveloped nations should actively assist in family-planning efforts for their employees and their spouses.⁹ Spokesmen for American firms are somewhat circumspect on this subject, perhaps reflecting current divisions in U.S. social and political thought on abortion, birth control, and related subjects. But the realities are that the birth rates of the nations in which they operate have a dramatic impact on companies.

In one Latin American country, for example, a U.S. firm found itself saddled with a government-mandated program that provided differential wage rates for each child that was born to an employee. For example, after the first birth, employees received an automatic pay increment, a second child produced an additional pay raise plus a 10 percent bonus, and so forth. A company executive, examining this system, says: "If you have 15 children, you are going to be very rich, you could end up making a lot more money than the plant manager. We don't think we should be encouraging this kind of thing. The high birth rate is already a problem in this country, and I don't think we should be subsidizing that birth rate."

The forum participants point out that the managers of multinational companies already have available, through the United Nations and other sources, technical data on the kinds and diversity of population projects in underdeveloped countries, and can consult these resources in determining how their companies' activities might be affected by population planning.¹⁰ Using such resources, most often in cooperative programs with host governments, companies have assisted employees in family-planning programs.

In the Philippines, for example, there are numerous family-planning activities involving U.S. multinational firms. Some plants have family-planning committees that are set up by the government but welcomed by local plant managers. In some of these operations contraceptives are

distributed within the plants. In many other cases, particularly in rural districts, educational efforts are made to help acquaint workers with the basics of human conception. However, even with vigorous Philippine government support for such programs, some of the executives questioned are reticent about their firms' involvements in these programs. One says: "The government plan has been supported by our operations in the Philippines, but we'd much prefer not to touch this area of our workers' personal lives."

In India, several hundred local and multinational firms have cooperated with the government in distributing family-planning advice and retaining nurses to counsel workers on this subject. One of the forum executives points out that several studies done in India have shown that this kind of involvement on the part of companies has not only reduced the birth rate among their employees, but also seems to have had an effect on the overall accident rate for their work forces. The executive theorizes: "When a man has eight or nine children at home, and sees a tenth one on the way, it tends to affect his performance and often, for whatever reasons, he seems to be more likely to have a job accident."

And since companies provide health-care benefits to their employees, including maternity benefits, they have an obvious financial stake in the number of children their employees choose to have. In one garment manufacturing plant in Sri Lanka, for example, the management found itself with a work force of more than a thousand women, the vast majority within the child-bearing ages of 18 to 45 years of age. Local law provided that, for each child born, the worker was entitled to 40 days of paid leave at the time of birth. With large families this created a significant economic cost for the company. A firm executive reports that many of the women workers had as many as eight or nine children.

The local labor law provided that workers were to receive two 15-minute breaks each day. The company decided to retain nurses specializing in birth-control counseling and to make them available to the work force during the morning and afternoon breaks. This approach, the firm reports, not only reduced the birth rate of the work force, but also lowered the company's absenteeism rate since the women could also obtain advice about other medical problems.

Overall, the feeling of the forum participants is that companies should actively cooperate with host governments in family-planning projects since there is such an obvious link between population control and economic well-being. But they are ambivalent about firms initiating such projects on their own, preferring political representatives to take the lead in such efforts.

⁹Barnett F. Baron, *Population, Development and Multinational Corporations*. New York: The Population Council, International Programs Working Paper #9, January, 1980.

¹⁰United Nations Fund for Population Activities, *Inventory of Population Projects in Developing Countries Around the World 1978-1979*. New York: United Nations Fund for Population Activities, 1979.

Literacy and Educational Infrastructures

American multinationals operate in countries in which anywhere from 50 to 95 percent of the population may be officially categorized as illiterate. (See Table 1.) And nearly all sophisticated productivity improvement programs are built on the assumption that you have a literate, intelligent work force to deal with. But most often, the local educational infrastructure—the elementary and high schools of the less-developed nation—is inadequate to the task of providing an educated work force. As a result, some companies have found themselves in the education business, either as sponsors of local schools or as the operators of the school system. In South Africa, one manager explained, two major U.S. firms joined to start a technical high school in one local community. This is a completely private venture and has nothing to do with the government's educational system. But that type of venture is not unusual for multinational firms.

Companies sometimes find that they have to develop and staff trade schools in order to assure availability of the craftsmen needed for sophisticated manufacturing operations. Such efforts require the preparation of detailed training manuals, translated into local languages, accompanied by appropriate visual aids, TV presentations, and so forth. One manufacturer's representative, explains the system in its LDC-located plants: "We'll

start trainees out with a basic DC motor and get them to understand this model. Then, when they have accomplished that, we'll go into AC motor systems. And when the student has mastered electric motors, we'll proceed to hydraulic systems. Then we begin to put all these elements together into a total machine system, combining various components that the students have learned about. Some of these students then go into an apprentice training program. At the present time, we are putting about 40 students at a time through our centers and turning out a significant number of craftsmen."

Another company reports that in its cement plant in Mexico, it has established a series of "skill blocks" covering all aspects of a particular job. The students are rotated through these various blocks of instructions. Local managers are used as instructors, and there is a substantial amount of audiovisual and self-training materials available for mechanics and machinists who are trained in the program. Local university graduates, brought in to become middle-line managers, are also offered this kind of training. But the company says that some "resist such exposure, feeling that such work is beneath them."

Companies that establish their own schools or technical institute programs can also find that they have helped reinforce a caste system within the local culture. In one case, the company spent up to a year training employees for a new plant that was to open. When the

Table 1: Illiteracy and Education

ILLITERATE POPULATION 15 YEARS OLD AND OVER, BY REGION: 1970 AND PROJECTIONS TO 1980 AND 1990*									
Region	1970			1980			1990 Forecast		
	Total adults	Illiterate adults Number	Percent	Total adults	Illiterate adults Number	Percent	Total adults	Illiterate adults Number	Percent
World Population	1,753	569	32.5	2,165	627	28.9	2,660	683	25.7
Africa	197	139	70.6	257	156	60.6	341	168	49.1
Latin America	162	46	28.1	218	44	20.3	291	40	13.7
Northern America	162	2	1.0	190	1	.5	207	1	.5
East Asia ¹	101	3	3.4	118	3	2.4	135	2	1.8
South Asia ²	1,000	358	59.6	789	402	51.0	1,048	451	43.0
Europe	345	15	4.3	375	12	3.1	398	10	2.5
Soviet Union	173	1	.5	203	1	.5	220	1	.5
Oceania	13	1	9.9	16	1	8.3	19	2	8.3

¹Excludes People's Republic of China and Democratic People's Republic of Korea.

²Excludes Vietnam.

Source: United Nations Educational, Scientific, and Cultural Organization, Paris, France. *Estimates and Projections of Illiteracy*, CSRE-29, 1978.

*In millions, except percent. Illiteracy is defined as the inability both to read and write.

plant opened, there were a number of menial jobs that had to be performed, along with the more skilled ones for which the workers had been trained. But the workers refused to perform these tasks, claiming the company should bring in "lower level" employees to perform such tasks as sweeping and cleaning the workplace.

Educational and training efforts are thus often heavily influenced by local attitudes toward work and social position. One manager says that, "in underdeveloped countries, getting people trained in simple work habits is sometimes more difficult than teaching them technical skills. For example, in Indonesia you can put a wastepaper basket right next to the desk of some workers and they still throw the papers on the floor. For some reason, in other plants, they always rip the toilet seats off. You put them on one day, and the next day they are completely gone."

Educating Students in the United States

In some instances, U.S. multinational corporations have helped sponsor programs which involve students from LDCs coming to the United States for advanced training. Often, these individuals come to American universities for training in technical and business management programs. The Algerian government, for example, sent 88 students to the United States for placement in separate college programs at Harvard, Columbia, Purdue, Case Western, and Syracuse Universities. But a later analysis of the program showed that a large percentage of these students, upon completion of their college work, decided not to return to Algeria—even though that return was a condition of their educational assistance.

Going to school in the United States is regarded as a mark of distinction in many LDC's and that fact can work to the disadvantage of American firms that are actively seeking to assist graduate schools in these nations. For example, one of the forum executives reports that while he was living in Thailand he participated as a member of that nation's educational commission. In that country, students graduating from local universities are paid less than if they obtain their degrees in American or European universities. This system also exists in some other Asian countries—a system with a built-in discriminatory impact on local educational systems.

Origin of Benefits Practices

The various benefits practices that companies follow, including those that allegedly aid productivity, usually did not begin with U.S. companies. According to one international executive: "Basically these practices come from the English and the Germans. The French have pretty much the same benefits and principles, and these

policies and practices have been exported to the less-developed nations. We find that not much in the way of benefits innovation is transferred back to the more developed countries, but it is possible to transfer innovations from one underdeveloped country to another." (Per Figure 1.)

Apparently, regional variations also influence a company's benefits posture. In many Latin American countries, the forum participants say, there is a tradition of corporate paternalism that results in the legislating of certain benefits that American-based multinationals would rather not provide. Some of these benefits are described by American managers as "whimsical" or, at least, "nontraditional" in that they have nothing to do with the employees' health or work motivation, but seem to be primarily the product of the fertile imagination of union negotiators.

At the same time, lessons learned in bargaining with U.S. unions are not always applicable, as far as the benefits are concerned, in less-developed nations. For example, the company labor contract negotiators at a soap plant in Lima found that union representatives were much more interested in increases in day-to-day medical care than they were in a company-paid life insurance policy. The chief union negotiator, asked why he was not interested in what seemed like an attractive life-insurance package, replied: "Why the hell bother us with that stuff [life insurance policies] that's of use to us only after we are dead? We want it in our pockets now."

In an attempt to get a better fix on which company benefits are most appropriate to a nation's needs, several of the forum participants report that their companies conduct regular studies of the nations within which they operate, trying to determine the rate of development and the changing needs of the population.

For example, one firm with operations in Indonesia reported that when it first located there—a decade ago—the most important benefits were food, clothing, shelter and transportation. The company provided employees with transportation loans, housing loans, and food supplements. But during the past decade, Indonesia has made significant progress as far as these infrastructures are concerned. The company no longer provides rice and clothing, among other things, but instead tries to give wage raises, which will allow the more economically sophisticated employees to make their own decisions about the kinds of clothing and food they deem necessary. At the same time, company managers do point out that, in reducing certain of these benefits and replacing them with cash payments in the form of higher wages, they do encounter problems because employees "take for granted" certain of the benefits without considering the costs that are involved in supplying them.

One manager pointed out that his firm sought to solve

this problem by appointing a task force to look at the various benefits that were provided in different countries. He says: "We discovered some things that no one in the firm seemed to know about and I would suggest that very few people know about the full range of benefits their firms provide offshore employees. But ignorance of these benefits can have important operating consequences. For example, many companies have medical plans that are taxable to the employee in the country if the employee is 'saved the expense' of the benefit by reason of the employer's contribution."

In a few cases companies have also used benefits as a means of differentiating between various skill levels within their plants. In Peru, for example, the wage spread between various skill and seniority levels has been compressed as a result of government-initiated policies toward egalitarianism. One firm reports that there is only a 5 percent wage differential between floor sweepers and skilled machine operators. This firm uses an increased scale of benefits as a way of rewarding its more skilled employees.

Assisting Governments

Besides individual aid to employees, the forum executives also say that their companies are vitally interested in assisting the host governments of LDCs in improving the health, transportation and communications infrastructures of their countries, as well as aiding in the development of better civic management. They are fully aware that unless such infrastructures develop, and countries are effectively managed, their own operations in these lands will be impeded. Reports have documented the upswing in corporate involvement in community development programs.¹¹

One reason for this increased attention is the fact that many host governments are taking a closer look at the overall social costs and benefits of various investment proposals by multinational firms. A development project which may be attractive to the multinational company may not always be equally appealing to the host country. Host governments are taking a closer look at the various by-product costs of the firms' operations—such as impacts on the environment, scarce resources, and so on, and weighing them against the gains produced by jobs and trade.¹²

To help get a better fix on the benefits side of the equa-

tion in making such investments, a number of other U.S. multinationals have policies that encourage employees to become involved in community aid and development programs and to work with host governments and academic centers in developing their statistical expertise. Admittedly, in some firms' cases, the use of more sophisticated statistical systems is of long-range market advantage to the companies; but one company spokesman says: "What we're really trying to do in these countries is get them to the point where they are capable of using modern data systems to effectively analyze and address social, political and economic problems. As far as the marketing investment is concerned, this is a sophisticated long-range planning effort. It does provide short-term and relatively immediate benefits to the local governments and, perhaps, long-term benefits to the total economies in which we operate."

The forum participants point out that certain countries seem in more dire need of management assistance than others. For example, one executive reported that he had recently had a long talk with the President of Bangladesh. The President reported that the major problem in his country was not an excess population growth, or even government corruption, but a critical shortage of government managers. With nearly \$1 billion in foreign aid pouring in each year, the government reportedly does not have enough managers to make efficient use of these aid moneys.

A somewhat similar situation has developed in Sri Lanka. A manager, whose firm operates in this nation, notes that: "The former government was socialist. It established over a hundred separate corporations, national companies that were run by relatives or a variety of incompetents. When the new government came in and wanted to convert many of these firms back to the private sector, it did not have the managers to run them. The government went to an American business school and attempted to get together with some of the multinational companies to establish a management training center, so that they could successfully convert these socialist-established companies to free enterprise firms."

Much of the current attention, forum participants say, is being directed at transportation and communication systems. It is not unusual for companies to operate bus lines—or even, in one case, a charter airline—in order to be sure that employees can get from their villages to manufacturing plants. Naturally, the companies would like to have the host governments take on these responsibilities. But such resolve, and sufficient amount of resources, are not always available. In some instances, even the most simple change in company policy can help to partially offset a defect in the local transportation system, for example. One firm reported that it had a recruiting policy in Jamaica that advertised that if an employee had a good attendance record during the first

¹¹Anon. *Top Management Report on Government-Business Corporation in the Field of International Public Affairs*. International Management and Development Institute, April, 1975.

¹²Louis T. Wells, Jr. "Social Cost/Benefit Analysis for Multinational Corporations." *Harvard Business Review*, March-April, 1975.

three months on the job, the person would be given a bicycle as a performance bonus. But the company soon discovered that it made much more sense to give the bicycle bonus at the time of hiring, because the lack of a reliable local transport system made certain that employees would not get to work consistently unless they did own bicycles.

Summary

The views and discussion of the forum participants reveal that U.S. MNC's are approaching the issue of productivity improvement in a variety of ways. Often,

improvements in health and nutrition far outweigh such traditional improvement routes as automation and labor-saving techniques. It is also evident that many of the things that American firms are doing, are contained within their operating budgets and are not considered philanthropic—even though such an activity, if carried out in the United States, would be classified as such. Finally, there is an evident need to catalog and describe some of the social investments that American MNC's make in order that firms may share such experiences and that the international community will have a better understanding of the nature and extent of these investments.

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Labor Outlook, 1982

by Audrey Freedman et al

The Conference Board



THE CONFERENCE BOARD'S 1982 LABOR OUTLOOK PANEL

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The Conference Board's annual meeting of experts in human resources took place on November 4, 1981. Panel members discussed the current economic situation, compensation trends, labor relations, and political events. This process provided the predictions for 1982. The individual views quoted were submitted in writing. Mr. Read missed the meeting but provided comments and evaluations.

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LABOR OUTLOOK, 1982

The Brakes Are On

The Conference Board's Labor Outlook Panel predicted that unemployment will continue rising through Spring, 1982. Panel members expected that unemployment will average 8 percent during 1982, suggesting that even if recovery were to begin during the second half of the year, it will have only weak reemployment effects.

The panel foresaw a notable decline in the rate of wage inflation next year. In major union settlements during the first nine months of 1981, first-year wage increases were 11.5 percent. For next year, the panel predicted that first-year wage and benefit increases will average 8.8 percent. Such an "unwinding" trend, combined with some improvement in output per man-hour, will produce a gradual reduction in labor cost inflation (see Table 1).

This moderation in wage demands was not directly attributed to job competition from the growing ranks of

unemployed. Instead, sharp cost-cutting efforts by employers are being focused on labor costs: wage freezes and reductions are taking place. At the same time, the U.S. work force is noticing the competitive weaknesses of some industries. In some cases, employees may perceive their own previous wage "militancy" as part of the problem. One union president commented:

"Once you get below the major unionized companies, there is real wage erosion. There is a mood among employees that they have to see the boss through the crisis."

Throughout the panel discussion, distinctions were made on the basis of company profitability and competitive strength. The imagery of "wage leadership," establishing a general target for union bargainers, has disappeared. It has been replaced by a new sensitivity to company performance and a new perception of the need to be competitive. Specifically, the pacesetter wage bargains in heavily unionized industries will not radiate out with the influence that they once had. Some big bargains are going to be notably moderate; some patterns of uniformity are going to shatter and disperse.



ROBERT NEYLAN
Vice President
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Table 1: Forecasts for 1982 by The Conference Board's Labor Outlook Panel

	Median (Percent)	Range (Percent)
Overall unemployment rate during 1982	8	7.5 to 9
Peak unemployment rate	9	8.1 to 11
(Month in which unemployment will peak)	(April)	(March - July)
Wage and benefit increases in the first year of major settlements, 1982	8.8	8.3 to 9.5
Increase in labor cost per unit of output in manufacturing	8	4 to 11
Increase in the Consumer Price Index	9	8 to 9.5

Explaining his prediction of widespread wage moderation and "less militancy," Mr. Neylan referred to a year of stagnation:

"During 1982, weak economic growth will keep wages down. A soft economy will stiffen resistance to wage increase levels, if only because, with declining sales, business will be unable to recover cost increases through higher prices. Also, I would expect that the personal income-tax reduction will have a dampening effect on wage demands since it will boost real earnings. To complete the cycle, many economists are predicting moderation in pricing which, if true, will also bolster real earnings."

"The key element in the bargaining area is the universal perception that business is flat and that this is not the time to press for extraordinary wage gains. Wage demands and increases will continue to decline into 1982, possibly accelerating downward as unemployment increases and we slip deeper into recession."



REX REED
Vice President
American Telephone &
Telegraph Company
Basking Ridge, New Jersey

Mr. Reed said that unemployment affects wage bargaining only indirectly.

"As the economy enters 1982, the unemployment rate is likely to continue to rise—but only slightly above 8 percent because of the relative mildness of the recession. As the economic rebound gets under way and gathers steam with the help of next year's July 1st tax cut, the unemployment rate should gradually decline and fall below 8 percent in the second half of 1982. By year-end 1982, however, it is not likely to be much improved from September, 1981's 7.5 percent rate.

"A recessionary economy causing an unemployment rate of 8 percent or more may possibly lead to a softening of the inflation rate as well. These factors, in and of themselves, would tend to moderate bargaining over wages.

"Lately, there has been very little relationship between supply of labor and wage demands. This suggests that the unemployment rate will not be the most significant direct factor in bargaining in 1982. Rather, the competitive state of an industry and a particular company will be of major importance."

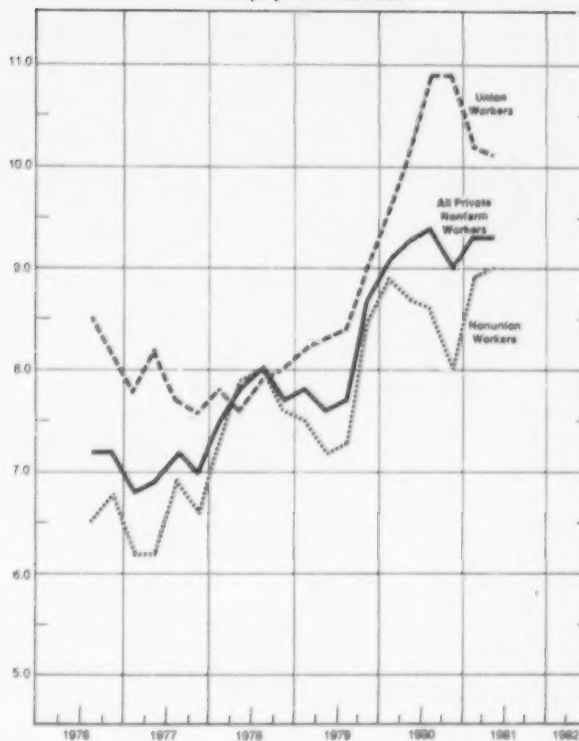
Nonunion Compensation Trends

Wage increases for the nonunionized 80 percent of the work force are more sensitive to local and national labor market conditions, and also the profitability of the employer. For a decade, however, the impression has grown that compensation "ought," somehow, to reflect inflation rates. The pressure on merit pay systems recently has been to provide rates of increase influenced as much by inflation as by company performance. Even so, nonunion pay trends have been generally lower than union rates of increase since 1975 (See Chart 1).

Most panel members see a narrowing of this disparity during 1982, but for widely varying reasons. Mr. Lewin—who expects strong recovery and economic growth to begin by midyear—predicted some labor shortages, and competitive bidding for skilled nonunion employees.

Chart 1

Rates of Wage and Salary Change in the Employment Cost Index



* Rates of change cover 12 months ending in the quarter indicated.

Source: Bureau of Labor Statistics; The Conference Board

"I expect the overall rate of pay increase for unionized groups to be higher than for nonunion groups in 1982, but the differential will be smaller than in previous years, perhaps 10 percent compared with 9.5 percent.

"I anticipate that the effect of the recent federal tax cuts, and perhaps also of higher-than-forecast federal expenditures, will be to bid up the demand for labor. Most of this effect will be felt in the nonunion sector, where pay adjustments occur more quickly than in the union sector. Historically, the pay of nonunion workers has risen more rapidly than the pay of unionized workers during economic expansions.

"Since I envisage 1982 as a year of slight to moderate economic expansion, I expect nonunion workers to be particularly subject to demand pressures. I do not see these pressures as being so substantial, or the unionists' emphasis on job security as being so strong, as to produce a situation in which nonunion workers' pay will increase more rapidly than unionized workers' pay—although that could happen in 1982 or, more likely, in 1983 or 1984.

"Also there is evidence of growing shortages of certain types of nonunion employees—for example, computer analysts and programmers—which implies that pay will be bid up relatively rapidly for such employees in 1982, thereby contributing to an overall increase in the rate of pay growth for nonunion employees. It is difficult to identify comparable shortages of unionized personnel."

DAVID LEWIN
Professor of Business
Graduate School of Business
Columbia University
New York, New York



This argument depends upon a vigorous resumption of economic growth in 1982. Moreover, it suggests that this growth will concentrate new demand upon high-technology jobs—nonunionized scientific, engineering and technician occupations in industries such as defense electronics. This highly selective tightening of the labor market will cause salary bidding and leapfrogging to such an extent, in this prediction, that it will affect the average rate of wage increase for all nonunion employees. Meanwhile, the employment contraction in unionized older industries will weaken wage pressures, turning that union curve downward in slope.

Other panel members were not expecting strong growth, and perhaps for this reason did not bring up wage "hot spots." In a year-long period of recession and weak recovery, nonunion wages will show the greatest sensitivity to loose labor markets. Mr. Winpisinger said:

"If economic contraction accelerates, the percentage gain in union settlements may moderate, *but that of the nonunion sector will fall further and faster.* Thus the gap between union and nonunion compensation will remain the same or widen. This is because nonunion workers have little or no defense against unilateral pay decisions made by employers who find themselves under pressure."

WILLIAM W. WINPISINGER
International President
International Association of
Machinists and Aerospace
Workers (AFL-CIO)



And Mr. Irwin agreed:

"In many nonunion operations, employers have greater ability to reduce the size of wage and salary increases. Often the employees are more concerned about job security and world competition than in many unionized operations."

DONALD IRWIN
Vice President
Employee Relations
Paccar Inc.
Bellevue, Washington



The Effect of Rising Unemployment on Government Policy

Policies that are sensitive to increased unemployment include:

- tariffs and other trade barriers
- unemployment insurance: qualifications, duration and payments, funding
- domestic protectionism and industrial "rescue" measures
- immigration control
- government actions affecting labor-market efficiency (e.g., minimum wages, construction wage fixing, payroll taxes, etc.)
- transfer payment systems (e.g., social security, medicare, medicaid, welfare)

There is, of course, an *existing* government policy on each of these broad subject areas: it has accumulated over many years in specific pieces of legislation and administrative refinement. The question before our panel was whether a "conservative" Administration would move to change any of the existing (and continuing) government policy—and how a year of stagnation and relatively high unemployment would affect the Administration's agenda.

At the time The Conference Board's panel met, the layoff rate among manufacturing employees had risen to 1.7 percent—the highest level in over a year. New applications for unemployment compensation by people who had recently lost their jobs had risen to over a half-million each week since late in September, 1981. Under these circumstances, it seemed to the panel that the Administration would (after a year in office) turn its attention to a human resources policy that would be

dominated by the unemployment issue. Possibly, also, policy formation would be reactive to the prospect of Fall, 1982 elections.

Mr. Carlough said that recession coupled with industrial shift puts a great deal more pressure on individual security:

"No one really knows how to deal with the simultaneous recession and inflation that recent years have brought us—least of all this Administration. The mix of high interest rates, brought on in the name of monetary restraint, and the draconian budget cuts of the very programs that could facilitate and cushion whatever adjustments might be required are very much part of the problem. They are certainly not the solution.

"Because this recession is different, because it follows a long period of poor economic conditions, and because its end cannot be anticipated, I believe that industrial contraction and restructuring may very well be accelerating in 1982. In a sharper, more sudden decline, a marginally sound plant may be kept going by a large company, with or without some cutbacks, in anticipation of better times. But the cumulative effect of prolonged poor conditions, coupled with prohibitive interest rates for business borrowing, will move such plants out of the marginally sound category and lead to more restructuring and contraction. As this happens, conflict is inevitable.



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"There is a school of thought that holds that a recession every once in a while is good for the economy because it forces out the weaker, less competitive firms and plants and thereby, through a corrupted version of 'natural selection,' makes the economy as a whole stronger. I certainly wouldn't subscribe to that theory. But it is clear that a dynamic economy requires a continuous process of restructuring and change as new industries arise, technology changes, and old industries become less competitive. Given that necessity, the critical question is: Should the full price of having that dynamic economy—from which we all benefit—be paid by the individual workers who happen to work in a particular plant or industry? When economic decline and contraction are added

to the normal dynamics, so that the displaced cannot be reabsorbed, that question becomes even more critical.

"The final policies being followed by this Administration make it very clear that the plight of the displaced worker is none of its concern. Unemployment insurance programs to cushion the blow and give breathing space in which to job hunt; public training programs to assist in the retraining and adjustment process; programs to assist those hurt by imports—all have been seriously cut back. If the Administration has its way, they will be cut even further. It is moving in a direction diametrically opposed to the 'comprehensive adjustment policy' that the labor movement and many others have long advocated as the only fair way to spread the burden.

"Tight fiscal and monetary policy are a fascinating abstraction for economists to experiment with in the large laboratory of our nation's economy, but you can bet that the worker—who finds himself without a job, a pension, or his work-based health or life insurance; who finds his unemployment compensation running out while the unemployment rate is still rising and there is no job in sight; who is facing staggering increases in the cost of health care for his family with no public program to turn to in his need, and so on and so forth—will resent being the guinea pig. If the economy's performance is as poor as expected in 1982, and the Administration's policies are continued, intensified conflict over the entire spectrum and direction of policy can be expected."

Mr. Wynn also sees unemployment in terms of the people he represents. He did, however, perceive an Administration human resources policy, disapproved of it, and expected it not to change:

"Sharp industrial contractions such as these could have been avoided if U.S. executives had been investing capital and modernizing their operations in the 1970's. Unfortunately, working people will suffer tremendously for these management mistakes. In addition, the current wave of mergers and acquisitions is concentrating economic power into fewer and fewer hands. These conglomerate mergers are intensifying the industrial restructuring of the U.S. economy.

"Recession and structural change will undoubtedly result in unemployment and social adversity for millions of Americans. For this reason, we believe that public support will dramatically wane for fiscal restraint.

"The entire industrial world will feel the impact of recession, and the obvious reaction on the part of corporations and governments will be to seek protection and guarantees against import competition. It is the responsibility of governments to bring some order and equitable control to these world markets. The problems of international trade have to be settled through multilateral agreements among nations. Unfortunately, the U.S. government seems to be backing away from this approach. Already, the Reagan Administration has refused to renew the international trade agreements on shoes.